

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting  
(Proposal Eleven)

Docket No. RM2015-4

INITIAL COMMENTS OF THE PUBLIC REPRESENTATIVE  
ON PROPOSAL ELEVEN

(December 3, 2014)

I. INTRODUCTION

On November 4, 2014, the Postal Service petitioned the Commission under 39 C.F.R. § 3050.11 to consider Proposal Eleven, which would change analytical principles relating to the Postal Service's periodic reports.<sup>1</sup> Proposal Eleven would redefine the current methodology for allocating fees the Postal Service pays when customers use debit and credit cards to purchase products and services (Debit/Credit Card Fees). *Id.* at 1.

For the reasons discussed below, the Public Representative recommends that the Commission approve Proposal Eleven. Proposal Eleven is an improvement over the current methodology because Proposal Eleven is more accurate and appropriate. The Public Representative suggests that the Commission evaluate the impact of Proposal Eleven on product pricing and compliance with 39 U.S.C. § 3633(a)(2).

II. BACKGROUND

On November 7, 2014, the Commission issued an order establishing this docket, appointing the undersigned Public Representative, and setting an initial comment deadline of

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Eleven), November 4, 2014 (Petition). The Petition was accompanied by public and nonpublic material. See Notice of Filing of USPS-RM2015-4/NP1 and Application for Nonpublic Treatment, November 4, 2014.

November 25, 2014 and a reply comment deadline of December 11, 2014.<sup>2</sup> Chairman's Information Request No. 1 was issued on November 20, 2014.<sup>3</sup> The next day, the Public Representative filed a motion to extend the comment deadlines.<sup>4</sup> On November 24, 2014, the Commission issued an order extending the deadline for filing initial comments.<sup>5</sup> That same day, the Postal Service filed responses to CHIR No. 1.<sup>6</sup>

### III. COMPARISON

Below the Public Representative compares the current methodology for allocating Debit/Credit Card Fees with Proposal Eleven and describes how Proposal Eleven would impact the Debit/Credit Card Fees allocated to products.

#### 1. Current Methodology

Currently, the Postal Service records Debit/Credit Card Fees in the general ledger in two accounts. Petition at 2. In one account, the Postal Services allocates Debit/Credit Card Fees to products using total postal labor costs. *Id.* In the other account, the Postal Service allocates Debit/Credit Card Fees to products based on window service direct labor costs.<sup>7</sup> *Id.*

Under the current methodology, the Postal Service classifies 42 percent of Debit/Credit Card Fees as attributable or volume variable costs. *Id.* The Postal Service classifies the remaining 58 percent of Debit/Credit Card Fees as institutional costs because these fees are not allocated to specific products. *Id.*

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<sup>2</sup> Notice and Order of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Eleven), November 7, 2014 (Order No. 2244).

<sup>3</sup> Chairman's Information Request No. 1, November 20, 2014 (CHIR No. 1).

<sup>4</sup> Public Representative Motion to Extend Comment Deadlines, November 21, 2014.

<sup>5</sup> Order Extending Deadline for Comments, November 24, 2014 (Order No. 2257).

<sup>6</sup> Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, November 24, 2014 (Responses to CHIR No. 1).

<sup>7</sup> The fees posted to general ledger account 523259, Professional and Other Miscellaneous Services are currently assigned to Cost Segment 16.3, Other Supplies and Services and distributed to products using total postal labor costs. The fees posted to general ledger account 52426, Credit and Debit Card Services are currently assigned to Cost Segment 13.3, Federal Reserve and Commercial Banks.

## 2. Proposal Eleven

Proposal Eleven would adjust the current methodology by allocating more Debit/Credit Card Fees to market dominant and competitive products. Under Proposal Eleven, the Postal Service would first calculate the total revenue received from debit and credit card purchases (Debit/Credit Card Revenue) by running payment tender reports from each of the major revenue reporting systems. *Id.* Second, the Postal Service would determine each product's percentage of Debit/Credit Card Revenue paid by debit and credit cards. *Id.* For example, in FY 2013, approximately 28 percent of Debit/Credit Card Revenue came from Single-Piece Letters. See *id.* at 4.

Third, the Postal Service would allocate Debit/Credit Card Fees to each product based on each product's percentage of Debit/Credit Card Revenue paid by debit and credit cards. *Id.* at 2. The Postal Service proposes to allocate approximately 28 percent of Debit/Credit Card Fees to Single-Piece Letters because approximately 28 percent of Debit/Credit Card Revenue came from that product. See *id.* at 4. The Postal Service will complete this process annually. *Id.* at 2.

## 3. Impact

The Postal Service argues that Proposal Eleven would more accurately allocate Debit/Credit Card Fees to the products purchased by attributing a higher percentage of Debit/Credit Card Fees to the products that incurred the fees. *Id.* at 3. As a result, the Postal Service would allocate almost all Debit/Credit Card Fees to specific products. *Id.* For example, in FY 2013 the Postal Service applied the current methodology and allocated less than half (approximately 42 percent) of Debit/Credit Card Fees to specific products. *Id.* at 2. By contrast, if the Postal Service had applied Proposal Eleven in FY 2013, almost all (approximately 98 percent) of Debit/Credit Card Fees would have been allocated to specific products and classified as attributable or volume variable costs.<sup>8</sup>

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<sup>8</sup> *Id.* at 5. The Postal Service would have classified the remaining Debit/Credit Card Fees as institutional costs because they are not related to a specific product. *Id.* at 3.

#### IV. ANALYSIS

The Public Representative has reviewed Proposal Eleven, the supporting financial models filed under seal, and the responses to CHIR No. 1. Based upon that review, the Public Representative recommends that the Commission approve Proposal Eleven. Below the Public Representative analyzes Proposal Eleven's overall impact on attributable and institutional costs and its effect on specific products.

##### 1. Overall Impact

Table 1 compares how the Postal Service allocates the percentage of Debit/Credit Card Fees under the current methodology and Proposal Eleven.

Table 1

<b>CLASS OR CATEGORY</b>	<b>Current Methodology</b>	<b>Proposal Eleven</b>
<b>TOTAL FIRST-CLASS MAIL</b>	<b>13.85%</b>	<b>38.78%</b>
<b>TOTAL STANDARD MAIL</b>	<b>4.56%</b>	<b>0.77%</b>
<b>TOTAL PERIODICALS</b>	<b>0.61%</b>	<b>0.00%</b>
<b>TOTAL PACKAGE SERVICES</b>	<b>0.95%</b>	<b>3.20%</b>
<b>Total Domestic Market Dominant Costs</b>	<b>30.69%</b>	<b>48.26%</b>
<b>Total Domestic Competitive Costs</b>	<b>8.56%</b>	<b>36.71%</b>
<b>INTERNATIONAL MAIL</b>	<b>2.39%</b>	<b>13.45%</b>
<b>TOTAL VOLUME VARIABLE COSTS</b>	<b>41.64%</b>	<b>98.42%</b>
<b>INSTITUTIONAL COSTS</b>	<b>58.36%</b>	<b>1.58%</b>

*Id.* at 4-5.

The Public Representative agrees that Proposal Eleven is more accurate than the current methodology because the products that incurred Debit/Credit Card Fees will bear the costs attributed to those fees. This approach is consistent with 39 U.S.C. § 3622(c)(2), which requires “that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships....”

Also, Proposal Eleven would significantly reduce the percentage of Debit/Credit Card Fees classified as institutional costs. In FY 2013, the Postal Service classified 58 percent of

Debit/Credit Card Fees as institutional costs. *Id.* at 2. Because institutional costs are not assigned to specific products, these costs were borne by all mail users.

By contrast, if the Postal Service had applied Proposal Eleven in FY 2013, the percentage of Debit/Credit Card Fees classified as institutional costs would have notably decreased from approximately 58 percent to approximately 1.6 percent. *Id.* at 2, 5. The Public Representative finds this reduction appropriate because it shifts the costs associated with Debit/Credit Card Fees away from mail users generally and towards users of those products that incurred those fees.

## 2. Impact on Market-Dominant and Competitive Products

Proposal Eleven would significantly increase Debit/Credit Card Fees allocated to three competitive products and five market-dominant products. These products account for the majority of shift in fee allocation across the product spectrum. Table 2 compares the actual and proposed Debit/Credit Card Fee allocations in FY 2013 and the corresponding increases in fees.

Table 2

PRODUCT OR TYPE OF PRODUCT	Actual Debit/Credit Card Fee Allocation, FY 2013	Proposed Debit/Credit Card Fee Allocation, FY 2013	Difference
FIRST-CLASS MAIL SINGLE-PIECE LETTERS	\$17,103,279	\$55,184,095	\$38,080,816
FIRST-CLASS MAIL PARCELS	\$2,994,540	\$20,004,848	\$17,010,308
PACKAGE SERVICES SINGLE-PIECE PARCEL POST	\$758,319	\$3,200,299	\$2,441,979
PACKAGE SERVICES MEDIA AND LIBRARY MAIL	\$868,768	\$3,194,616	\$2,325,848
SPECIAL SERVICES POST OFFICE BOX SERVICE	\$2,292,516	\$5,959,832	\$3,667,316
COMPETITIVE PRODUCT UNDER SEAL	UNDER SEAL	UNDER SEAL	\$4,187,208
COMPETITIVE PRODUCT UNDER SEAL	UNDER SEAL	UNDER SEAL	\$5,908,792
COMPETITIVE PRODUCT UNDER SEAL	UNDER SEAL	UNDER SEAL	\$47,865,728

Proposal Eleven would also significantly decrease or eliminate Debit/Credit Card Fees allocated to some market dominant and competitive products. Table 3 lists the products whose costs would decrease by more than \$1 million due to Proposal Eleven.

Table 3

<b>PRODUCT OR TYPE OF PRODUCT</b>	<b>Actual Debit/Credit Card Fee Allocation FY 2013</b>	<b>Proposed Debit/Credit Card Fee Allocation FY 2013</b>	<b>Difference</b>
<b>FIRST-CLASS MAIL - PRESORT LETTERS</b>	<b>\$3,226,190</b>	<b>\$0</b>	<b>(\$3,226,190)</b>
<b>FIRST-CLASS MAIL - SINGLE PIECE FLATS</b>	<b>\$3,463,813</b>	<b>\$2,311,268</b>	<b>(\$1,152,545)</b>
<b>STANDARD MAIL - CARRIER ROUTE</b>	<b>\$1,009,055</b>	<b>\$0</b>	<b>(\$1,009,055)</b>
<b>STANDARD MAIL - LETTERS</b>	<b>\$5,626,724</b>	<b>\$0</b>	<b>(\$5,626,724)</b>
<b>STANDARD MAIL - FLATS</b>	<b>\$1,507,516</b>	<b>\$0</b>	<b>(\$1,507,516)</b>
<b>PERIODICALS - OUTSIDE COUNTY</b>	<b>\$1,158,013</b>	<b>\$0</b>	<b>(\$1,158,013)</b>
<b>ANCILLARY SERVICES - CERTIFIED</b>	<b>\$6,044,436</b>	<b>\$1,420,877</b>	<b>(\$4,623,559)</b>
<b>OTHER ANCILLARY SERVICES</b>	<b>\$3,986,713</b>	<b>\$1,704,998</b>	<b>(\$2,281,716)</b>
<b>SPECIAL SERVICES - MONEY ORDERS</b>	<b>\$4,772,654</b>	<b>\$405,357</b>	<b>(\$4,367,297)</b>
<b>COMPETITIVE PRODUCT - UNDER SEAL</b>	<b>UNDER SEAL</b>	<b>UNDER SEAL</b>	<b>(\$1,282,135)</b>

*Id.*

The Postal Service does not mention, in its proposal, the effects that this methodology will have on product pricing. The Public Representative recommends that the Commission consider the long- and short-term impact that the change in costs will have on specific product pricing. For example, Debit/Credit Card Fees allocated to Single-Piece Letters would increase by \$38,080,816. If this increase causes the Postal Service to raise prices for Single-Piece Letters, users of that product, which includes the general public, would be adversely affected. The same is true for other products listed in Table 2, above.

The Commission should also evaluate whether the increase in Debit/Credit Card Fees allocated to competitive products would prevent a competitive product from covering its attributable costs. See 39 U.S.C. § 3633(a)(2). The Public Representative finds it likely that competitive products would continue to cover their attributable costs because the increases in Debit/Credit Card Fees for the competitive products listed in Table 2 are small relative to the total attributable costs for those products.

V. CONCLUSION

The Public Representative recommends that the Commission approve Proposal Eleven. Proposal Eleven is an improvement over the current methodology for allocating Debit/Credit Card Fees because it is more accurate and appropriate. The Public Representative suggests that the Commission evaluate the impact of Proposal Eleven on product pricing and compliance with 39 U.S.C. § 3633(a)(2).

Respectfully Submitted,

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